

Realty Stock Review

July 14, 1989 (Priced July 14)

Volume XX, Number 13

MLPS: Values Peep Thru the Fallen Leaves

Stock Prices Still Weak But Values Start Emerging From Real Estate MLPs

One and one-half years after Congress changed the rules for master limited partnerships (or MLPs), the market is slowly sorting out who will be long-term winners and losers. Gone is the enthusiasm by investment bankers that brought \$1.3 bil. of MLP units public in 1986 and 1987.

Since then MLPs have gone thru major Congressional scrutiny ending in the Dec. 1987 Revenue Act that (a) grandfathered real estate MLPs (along with resource-oriented entities) from ever being taxed as corporations if they don't change their business lines, and (b) ended the practice of using MLP and partnership losses to "shelter" other earned income. Congress set new trading standards and gave MLPs the bureaucratic name of "publicly traded partnerships", or PTPs, but we continue to use the more familiar MLP tag.

In the aftermath, MLP stock prices have fallen, a few dividends have been cut, and more cuts appear on the way as sponsor guarantees, initially offered as sweeteners to induce investors to buy MLP paper, expire. Most sell-side brokerage firms cover realty MLPs only infrequently. Institutions aren't interested because

Congress effectively eliminated purchases by pension funds and other tax exempt investors. Investment bankers haven't brought a major new realty MLP public for two years, since June 1987.

All this apathy equals value in our eyes, making this a good time to look carefully. Short-run, MLP stocks are becoming "seasoned," meaning investors are starting to see how assets and managements perform and are pricing normalized dividends ex sponsor guarantees and other soft financings.

Not all the news is good: Southmark Corp., which originally sponsored the rollout of National Realty L.P., sought Bankruptcy Court protection at press time July 14 (see p.3), and Integrated Resources is seeking to sell its general partner and unit holdings in American Real Estate Partners (see p. 2). We see both as positive events for NLP and ACP investors and advise buys for both these rollout MLPs, altho NLP remains highly speculative.

The table below shows current yields and price changes since initial opening stock trades, not nominal value assigned in the rollout:

MLP	Price	% Chng.	Yld.
Amer. RE Est.	\$14.00	-14.3%	14.3%
Natl. Realty	8.75	-62.2%	9.1%
Totals	\$22.75	-39.3%	12.3%

Off-balance sheet financing MLPs: Four other MLPs reviewed this issue all own either hotel or restaurant properties. All have fared poorly in after-market trading, down an average 27%, but **Burger King** and **Red Lion Inns** have hit new highs in recent weeks. One (**Burger King**) has cut payout but is now cash-flow positive without supports. **LaQuinta L.P.** will cut dividend next Feb. when sponsor support ends, and **Prime Motor L.P.** support runs thru 1991. Advice for this group: Hold or avoid all except **BKP** and **RED**. Here's a brief statistical profile showing recent price, decline since initial offering, and current yield:

MLP	Price	%Chg.	Yld.
Burger King LP	\$15.38	-23.1%	11.7%
LaQuinta Mtr. LP	9.88	-50.6%	20.2
Prime Motor LP	15.25	-23.8	13.4
Red Lion LP	18.25	-8.9	11.3
Totals	\$58.38	-26.6%	13.4%

Your choices in the MLP group are very broad, and we'll look at two shopping center and two land development MLPs in the next RSR.

Southmark Bankruptcy: Look For Long and Arduous Duel

Southmark Corp. filed for Ch. XI protection July 14, putting the parent company but not the subsidiaries under Bankruptcy Court protection. SM said it adopted this strategy to deal fairly with all lenders and protect operations of subsidiaries. But whether SM can appease creditors is up in the air: SM wants them to accept a package of equity, while creditors are posturing to get new debt. However settled, the message is that SM common and preferred don't seem to have much future and even senior bonds may get squeezed. Don't be in any hurry to bottom fish: workout will take time.

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AMERICAN REAL ESTATE PARTNERS, L.P. (ACP:NYSE) RANK C

ACP, now managed by a subsidiary of troubled financial services giant Integrated Resources, Inc. (IRE:NYSE), likely will come under new control soon. ACP is a 1987 roll-up of 13 American Property Investors tax-shelter limited partnerships originated by IRE. Substantially all of ACP's properties are net-leased to single tenants under long-term leases, creating stable and predictable gross revenues, but producing very little added value. IRE maintains approx. 10% interest in ACP as parent of the General Partner (GP), American Property Investors, Inc.

ACP has attempted to address the lack of spark by repurchasing units and dramatizing the hidden values in its portfolio thru selective disposition of property. Thru Dec. 1988, ACP had sold 25 of its original 378 properties for net proceeds of \$9.6 mil. vs. the \$6.0 mil. appraised value. And ACP has agreed or contracted to sell another 19 properties for an expected gross \$50 mil. vs. a carrying value of \$41 mil. Also, ACP has also repurchased 265,100 units at an aggregate cost of approx. \$4.051 mil. or \$15.28/unit thru May 15, 1989. Ranking of C is continued.

Gut Issue I: Will removal of IRE's shadow help ACP shares to again trade in the neighborhood of book value? IRE at its June annual meeting indicated that it wants to sell its 10.65% interest in ACP, including its GP, American Property Investors, Inc. Passing control to a new GP would likely boost investor confidence in ACP, whose fortune many now equate to that of IRE. IRE's interest should likely fetch north of \$30 mil., based on our estimates of value of IRE's 1.55 mil. units and unit equivalents. And while the unknown identity of any new ACP general partner adds uncertainty, we see the change as positive on balance in view of IRE's precarious financials (see RSR, June 23).

Gut Issue II: How fast can ACP move into multi-tenant properties? ACP is intent on creating a portfolio that has greater growth potential, most likely thru selling net leases (very much in demand today) and using proceeds to acquire multi-tenant properties that offer greater growth potential via rental roll-over and escalation. Such properties carry commensurate risk of decline in rents as well and would require ACP to develop a staff of leasing professionals, the key to

success in a multi-tenant strategy.

ACP's goal of spicing up its portfolio thru careful evolution has gained ground. In the March quarter ACP made its first acquisition, buying 50% interest in four supermarkets located in Atlanta, Indianapolis, Toledo and Edina (Minn.) from Super-Valu Stores, Inc. The cash investment in buildings and underlying properties of \$17.5 mil. was made in partnership with High Equity Partners — Series '88, an IRE sponsored partnership. Super-Valu provided partial guaranties on the four leases, which give ACP participations in gross sales.

ACP's 351 properties owned have \$502 mil. in gross value, and 41 mortgages on properties sold are carried at \$34 mil. Properties are mainly net-leased to major corporations in deals which generated tax deductions for the corporate lessees as well as tax shelter for ACP's initial investors. Properties are approx. 42% retail, 9% office, 13% industrial, and 35% other. They are located 31% Southeast, 28% Northeast, 21% SouthCentral, 10% Southwest, 8% North Central and 3% Northwest and Canada.

ACP is beginning to increase its use of leverage, which adds risk to a portfolio which heretofore we considered as having bond-type safety. Could some tax-motivated deals come unglued? Two pre-Tax Reform Act of 1986 deals with blue chip utilities have come unraveled to date and ACP has acquired deed in lieu of foreclosure on one property and expects to do the same for the other by year-end. Investment yield at the first property taken back fell 40% to 8.14% from 13.7%. ACP says such deals are a small part of overall holdings, but this revaluation raises questions as to long-term stability of the portfolio and to what extent ACP properties are structured on inflated pre-TRA '86 prices to produce tax losses that could be vulnerable to restructuring into lower yields.

New debt of \$50 mil. raised in May, 1988, is structured as a 10-year, 9.6% loan from Prudential Insur. The loan provides for a deferral of 2% interest in the first 5 years, with principal payments commencing in the seventh year. ACP used proceeds to retire higher cost mortgage debt. In Dec., 1988, ACP obtained a \$35 mil. unsecured line of credit from

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AUDIT INVESTMENTS, INC., 136 SUMMIT AVENUE, MONTVALE, NJ 07645-1720 Phone (201) 358-2735
KENNETH D. CAMPBELL, PRESIDENT / FAYE KREISMAN, STATISTICS / MICHAEL HOUSTON, ANALYST

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Manufacturers Hanover for working capital purposes, which is currently untapped.

Advice: Buy units trading 18% below book value of \$16.97 per unit. ACP's portfolio is still one of the highest yielding and staid in the industry and cash flows have a high degree of certainty. However ACP's risk/return profile will increase as it acquires properties with higher growth potential and use of leverage increases. A new GP would improve investor confidence and increase market perception for units. Approx. 50% of ACP's \$2.00 payout is non-taxable

resulting in a 12.3% after-tax return for an investor in the 28% bracket. (MJH)

ACP-NYSE RANK B Dec. years 14.56 mil. units.
Price: \$14.00 Div. \$2.00 Yld. 14.3% Price/cash flow: 6.51X

Year	EPS	CFS	Div.	High	Low	Yld. Range
1987	\$1.66a	\$1.72a	\$1.50	\$17.5	\$12.5	8.5-12.0%
1988	1.81b	2.00b	2.00	16.88	14.625	11.8-13.7
1989E	1.90	2.15	2.00	16.00	14.00	12.5-14.3

Sales gains: a-Incl. \$0.05/un; b-Incl. \$0.24/un. a-Began oper. 7/87.

Finances: Debt: \$263.1 mil. Equity: \$253.2 mil. or \$16.97/un. Debt/equity ratio: 1.04-1.
Address: 10 Union Square East, New York, NY 10017. (212) 353-7000.

NATIONAL REALTY L.P. (NLP:ASE) RANK C

MLPS 7/489

NLP is the survivor of the controversial October, 1987 roll-up of 35 limited partnerships controlled by Southmark Corp., (SM:NYSE), a troubled realty and financial services company which sought Ch. XI Bankruptcy Court protection July 14. NLP owns 17,559 apartments to make it the largest publicly traded apartment owner. Altho SM estimated NLP units would be worth \$50 each following the roll-up and a subsequent 1-for-5 reverse split, trading has settled below \$10 in recent months.

All our usual value measurements point toward values well above \$10, and the depressed price reflects fears of hidden problem properties, uncertainty and distrust over how Southmark's ousted two former top officers will run NLP, and lingering illiquidity. We continue to carry NLP as a high-risk recovery speculation in our Portfolio Planner and Rank C.

Gut Issue: Can anything reverse the negative vibes surrounding NLP so its underlying values can be realized? NLP continues to try and cope with controversy that has dogged it from Day One. Action on major battlefronts:

1. Cash now or cash later? Gene Phillips and William Friedman, initiators of the rollup while they ran Southmark and now NLP's general partners, are setting NLP on a course to seek capital appreciation instead of high current income. They are looking for opportunistic investments in apartments and other real estate partnerships which they consider undervalued because of short-term market and real estate conditions. To cash in, NLP would either buy or lend at "suitably high rates".

This aggressive stance is on collision course with several groups of West Coast investors who fought inclusion in the NLP rollup of 20 partnerships sponsored by Robert A. McNeil Corp., later acquired by SM. Three of the group filed suits alleging breaches of fiduciary duties, good faith and fair dealing.

Mon -
They argue that (a) "good" McNeil partnerships were merged with "bad" SM partnerships; and (b) NLP should sell off properties and return net proceeds to investors as quickly as possible, rather than reinvest property sale proceeds into more speculative new deals. One trial begins Mon., July 17, with investors seeking return of their money. We can't predict the outcome but it's possible these suits could ultimately force property sales that could lead to payout of some of NLP's underlying values.

2. Can anyone unscramble the omelet?
Since Phillips/Friedman took over as general partners (or GPs), NLP's fortunes have become increasingly intertwined with those of six REITs also under their management. This scrambling seems part of their anti-takeover defenses. One major rap against Phillips/Friedman at Southmark was that SM engaged in so much self-dealing and shuffling of assets that ultimately it lost the confidence of lenders, who demanded management changes at SM. NLP and six other SM-managed REITs became hostages in the ensuing struggle and eventually SM's outside directors ceded control of the seven hostages to Phillips/Friedman as part of their departure deal.

The seven hostages — which control \$1.5 bil. assets — quickly became takeover targets for several large investment groups. Phillips/Friedman responded by putting in poison-pill anti-takeover plans for nearly all the seven hostages. In April, two Detroit pension plans, which had bought 20% of one hostage REIT, Income Opportunity Trust (IOT:ASE), as part of its initial offering, launched an unfriendly tender for all IOT shares they didn't own. The pension plans got a San Francisco Federal court to set aside IOT's poison pill but haggling over tender-document contents is stalling the tender. NLP bought 1.0% of IOT shares thru the Mar. qtr.

Now a burst of inter-related transactions and

cross-stock purchases are scrambling the seven hostages into an omelet — and one more resistant to takeovers. Some recent developments:

- A deal just completed (but which could be unwound because of Southmark's bankruptcy filing) between SM and Phillips/Friedman swapped SM's 8.3% stake in NLP, plus its 41.3% in hostage American Realty Trust (ARB:NYSE) and stockholdings in the other five hostages, for \$72 mil. mortgages currently held by ARB, a mortgage trust. This lifted the Phillips/Friedman ownership of ARB to about 40%. SM will receive \$1.1 mil. of dividends that ARB had been withholding. Contested notes, claims and severance pay between SM and Phillips/Friedman were settled. Settlement with ARB is important because:

- ARB owns about 1.8% of NLP. The recent deal gives 8.3% of NLP to Phillips/Friedman.

- NLP in turn thru the March qtr. bought about 9.0% and 9.9% respectively of two other hostage REITs, formerly named Consolidated Capital Income and Consolidated Capital Special Trust. Both were takeover targets in the past year. NLP spent about \$11.4 mil. to buy these shares, at \$5.77 and \$4.94/sh. respectively (vs. recent prices of \$3.75 and \$3.25 respectively).

To compound the scrambling, these REITs have just changed names as follows: Consolidated Capital Income Trust now becomes National Income Realty Trust (NIRTS:OTC) and Consolidated Capital Special Trust now becomes Continental Mortgage & Equity Trust (CMETS:OTC). Another hostage, Consolidated Capital Realty Trust, becomes Vinland Property Trust (VIFTS:OTC).

- In May, two affiliated trusts, believed to be NIRTS and CMETS, agreed to lend NLP \$30.8 mil. to bolster its liquidity.

- NLP also owns 1.8% of the seventh hostage, Johnstown/Consolidated Realty Trust (JCT:NYSE), at \$1.4 mil. cost, or \$6.46/sh. (vs. \$7.38/sh. currently).

The lesson for investors is that these stocks will move on takeover or liquidation news. Shares of IOT and JCT are up 94% and 16% since last spring because of takeover speculation, while shares of NLP are down 21% and the three former ConCap hostage REITs are down 33% to 67% because of anti-takeover moves. ARB, which becomes a cornerstone in the Phillips/Friedman complex, rose 3% over that span.

Accounting obscures property results: The popular view is that NLP has trouble bringing cash flow down to the bottom line, and NLP's reported EPS supports that view after applying general accounting principles to NLP's real estate operations. NLP reports losing big money the last three years. But remember NLP has operated as a single unit for less than two years (historic numbers for 1986 and part of

1987 are combined for constituent partnerships).

Sorting out property-level results after such charges as (a) non-cash depreciation and (b) net property gains, provision for value declines and rollup costs shows that NLP's properties were cash-flow positive in each of the last three years before these charges — even tho property results fell in 1988. The table below adds back those special items on a per-unit basis, after the GP's 1.99% allocation, to show actual property results, plus NLP's reported Funds from Operations, all on a per-unit basis:

Item	1988	1987	1986
Net loss as reported	(\$2.52)	(\$3.33)	(\$1.81)
Plus: Net gains & loss reserves	0.89	2.18	0.20
Plus: Depreciation charge	1.95	2.15	2.61
Equals: Net income before deprec.	0.33	0.97	0.96
NLP Funds from operations	0.63	1.15	1.10

In addition, a good part of NLP's losses trace directly to its policy of leveraging properties so that interest soaks up a good part of property net operating income. NLP has refinanced many properties recently to invest net proceeds in the aggressive opportunities it sees. Here's a table showing how interest on NLP's \$335 mil. mortgage debt consumes a good part of property income, again on a per-unit basis:

Net property income	\$4.96	\$4.98	\$5.74
Less: Interest costs	(3.95)	(3.49)	(4.08)
Less: Payroll, admin., & fees	(1.25)	(0.74)	(1.10)
Plus: Interest & other income	0.57	0.21	0.41
Equals: Net before deprec.	0.33	0.97	0.96

Assets and current asset value: At end of 1988, an independent appraiser hired by NLP valued its properties at revaluation equity of \$301 mil. over related debt and disposal costs, or about \$33.12/unit. Three property sales of two apartments and one office in the March qtr. approximated appraised value. The appraisals are another way of confirming that NLP's \$177 mil. accumulated depreciation doesn't reflect value declines, and they indicate that NLP's properties have appreciated about 25% since they were acquired in the mid- and late-1970s. In our view, NLP has net current value of \$26.00/un. *even if the appraisals are high by 10%.* But please note that the new appraisals mean NLP has lost about \$17/un. since the 1987 rollup.

On an historic cost basis, NLP holds \$388.8 mil. assets net of depreciation divided 80% net properties, 9% notes receivable, 5% marketable securities, and 6% cash and other assets. NLP's properties cost \$515 mil. and include 68 apartment complexes with 17,559 dwelling units (72% of cost); 11 shopping centers with 1.3 mil. sq. ft. (13% of cost); 9 offices with 743,000 SF (10% of cost); and 1,500-acre Hidden Valley land development near Phoenix. Apartments

are widely diversified with 36% Midwest, 28% Southwest, 22% Southeast. Apartments averaged 89.2% occupancy in 1988, while shopping centers were 85% occupied and offices 71.4%.

Advice: Buy for very high-risk accounts who can afford possibility of negative surprises. But with units selling at 65% discount to our lowest value estimate, there seems to be enough room to absorb negatives. Also NLP plans paying about \$0.80/un. this year (three \$0.20 quarterlies plus a fourth quarter adjustment for actual results). All would be

tax-free return of capital. (KDC)

NLP:ASE Rank C Dec. years 8.91 mil. units
Price: \$8.75 Div. \$0.80 Yld. 9.1%

Year	Op. EPS	Oper. Funds	Div.	High	Low	Yld.
1986	\$(1.65)a	\$1.10	\$2.82	Not traded		
1987	(1.18)a	1.15	0.94	\$24.75	\$15.00	NM
1988	(1.63)a	0.63	1.60	19.38	10.63	15-8%
1988E	NE	NE	0.80	12.75	7.50	9-6%z

a-Before net capital gains, net realizable value provisions, and offering costs: 1986-\$(0.20); 1987-\$(2.18); 1987-\$(0.89). NM-Not meaningful; shares began trading Sept. 18, 1987. z-To date.

Financing: Debt: \$341 mil.; Equity: neg. \$9.86 mil. or \$(1.11)/un.; accum. dep. \$177.3 mil. or \$19.91/un. Current value 12/88: \$301 mil. or 33.12/un. Debt/current value est.: 0.5-1. Address: 15770 N. Dallas Pkwy., Ste. 1200, Dallas, Tex. 75248. (214) 960-9383.

LA QUINTA MOTOR INNS L.P. (LQP:NYSE) RANK D *MLPS 7/489*

LQP is a sagging master limited partnership that owns 31 motels managed by the sponsor, La Quinta Motor Inns, Inc. (LQM:NYSE—\$17). LQP's 3,802 rooms average 10 years in age and are concentrated in the Southeast and Southwest, where recession has hurt. The partnership came public in Oct. 1986 at \$20/unit, but cash flow problems and an impending dividend cut have pushed the price of limited partnership (LP) units down to \$10. We are lowering units to D Rank for now.

Gut Issue: Has the market fully reflected LQP's impending dividend cut after the sponsor's guarantee expires in October? In March LQP formalized our Jan. 13 advisory that a dividend cut was likely when LQM's guarantee ends Oct. 22, 1989. LQP said it intended to continue the current \$2/un. annual rate thru 1989, but that the Feb. 1990 payout will reflect a rate it currently expects will be in the \$1.00 to \$1.50/un. range. For now the Street is betting on the lower number.

LQM guaranteed the \$2/unit annual payout only for the first three years of LQP's life. Payout has been supported by additional capital contributions to the LQM subsidiary acting as general partner (or GP), so the mechanism in effect increases LQM's pro rata ownership of LQP's net assets. As of March 31, LQM owned 12.7% of LQP's \$59.3 mil. net equity, and we estimate this ownership percentage should rise to about 15% by year-end. For LQP's first three years, investors will have received \$6/un. dividends but lost \$10/un. in share value, or a 20% real loss.

Hotel market key: LQP's future unit price hinges upon hotel market revival. Whether more losses are ahead when LQP's new, lower dividend is finally unveiled depends upon how LQP's 31 motels fare. In 1988, the 31 units boosted average room rates only 0.6% to \$36.28/rm. but occupancy rose by 2.7 occupancy points to 67.8%. Average rates jumped 2% to \$37.05 in the seasonally weak March qtr. while occupancy also rose 1.2 points to 64.1%. This is a positive trend that may moderate the dividend cut.

The weak hotel markets caused a 14% drop in 1988 net operating income before depreciation to \$10.7 mil. After depreciation and debt service, LQP lost \$0.48/un. under general accounting principles. Net operating cash flow of \$1.26/un. fell 17%. LQM chipped in \$3.1 mil. for dividend support, or 39% of payout. Distributions in 1988 and 1989 should be tax sheltered return of capital; LQP had \$0.73/un. taxable loss in 1988.

LQP's concentration in Texas (30% of the partnership's rooms) and competitive Fla. (21% of rooms), and its focus on lower-rate business travelers have hurt efforts to boost cash flow.

Interested institutions: Eagle Funds, managed by Arnhold & S. Bleichroeder Inc., own 5.3% of LQP units and Cohen & Steers Capital Management holds 7.9%. Neither management or LQM own any units.

Asset value: We think LQP is worth about \$15.75/un., based on the industry valuation yardstick that hotels are worth about \$1,000 a room for each \$1 of room rate, and after deducting the GP's 12.7% ownership interest. This 37% discount to our estimated value, plus a Texas recovery play under a strong franchise banner, may be the honey drawing the institutional bees.

Advice: Avoid for now. We first put a sell recommendation on LQP in July 1988 when its units traded at \$14.25 and we held this stance at \$12 in Jan. 1989. LQP units are still searching for a bottom, and we're not yet tempted. (KDC)

LQP:NYSE Rank D Dec. years 3.975 mil. units
Price: \$9.88 Div. \$2.00 Yield: 20.2%

	Op. EPS	CFS	Dist.	High	Low	Yield
1986a	\$(0.09)	\$0.11	\$0.84	\$19.88	\$17.75	NM
1987	(0.01)	1.51	2.00	19.25	10.75	10-19%
1988	(0.48)	1.26	2.00	15.50	10.25	13-20
1989E	NE	1.25	2.00	13.00	8.50z	

NE-No estimate. z-To date. a-From 10/15/86.

Finances: Debt: \$69.5 mil.; Equity: \$59.3 mil. Incl. \$7.5 mil. GP interest; accum. deprec. \$13.4 mil. Equity + dep. L.P. unit: \$16.40/un. Debt/equity ratio: 1.2-1. Address: 10010 San Pedro Ave., San Antonio, Tex. 78216. (512) 366-6030.

PRIME MOTOR INNS L.P. (PMP:NYSE) RANK C

PMP is a master limited partnership (MLP) which owns 16 full-service motor inns with 2,492 rooms. All operate under Holiday Inns franchises and all are net leased thru Dec. 31, 1991 to sponsor Prime Motor Inns, Inc., New Jersey based major lodgings operator. Prime runs PMP as general partner. As part of the deal, Prime also supports PMP's distributions by making up any operating shortfalls under the net leases; last year this shortfall payment amounted to about 23% of PMP's total lease payments from Prime. We are giving an initial C Ranking to PMP units.

Gut Issue: Will PMP's dividends fall off the cliff when Prime's dividend support ends in 1991?

We think not, altho our numbers suggest that if Prime support were to end today, payout would fall about 25% to \$1.50/unit. That would provide 10% yield at the current price of about 15, all tax-free return of capital. With about two and one-half years left before the Prime support ends, the hotel market would have to get a lot worse to impart major downside risk to the units.

The EPS/distribution record: Like most realty stocks, there's a big gap between PMP's earnings and cash flow per unit. Our statistical table below shows EPS fell 7% to \$0.89/un. in 1988, while operating cash flow fell only 2.5% to \$2.35/un. Payout fell 2% to \$2.00/unit but the rate has been moved up to \$2.04 for 1989 and should move to \$2.10/un. in 1990 and \$2.20/un. in 1991 under the Prime lease.

Prime provided about \$3.8 mil. operating support in 1988, which translates into \$1.48/un. operating cash flow ex the Prime support. March qtr. CFS rose 5% to \$0.63/un. but nearly all the gain came from lengthening depreciation schedules; CFS excluding Prime support would have been \$0.08/un. in the seasonally weak qtr. We expect better operating results to let Prime cut its support in 1989.

Assets and operations: PMP bought its motor inns from Prime for \$127.95 mil. or \$51,340 per room in 1986. The Inns are located near Baltimore, Md. (9 inns with 61% of rooms); Lancaster/York, Pa. (5 inns

with 27% of rooms); and New Haven/Hartford, Conn. (2 inns with 12% of rooms). Inns are net leased back to Prime at base rent of 12.2% on cost, plus additional rent of 3% of gross revenues (which is set aside for refurbishments), and percentage rent of 25% of cash flow available for debt service (none payable in 1988).

PMP's Inns operated with a \$56.09 average room rate in 1988, up 4.3%, but average occupancy fell by 1.6 occupancy points to 64.7% in 1988, producing a 1.8% revenue gain. Some recovery appeared in the Mar. qtr. when revenues gained 4.5% while expenses grew by only 2.8%.

Tax shelter: Distributions thru 1991 are expected to be tax-free return of capital, result of differing depreciation treatment for public and tax reporting. As an MLP, PMP is grandfathered as a pass-thru partnership for tax purposes unless it adds a substantial new line of business; PMP says it's possible the IRS may argue that PMP should be taxed as a corporation after its 1991 lease expiration.

Asset value: We think PMP units are worth about \$20.90/un., under the rule of thumb that hotel units are worth \$1,000 for each \$1 of room rate. This is modestly above the \$19.17/un. combined equity plus depreciation.

Holders: Management owns 1.6% and only large holder is Cohen & Steers Capital Mgmt. with 5.3%.

Advice: Hold or buy long-term for yield and recovery. (KDC)

PMP-NYSE Rank C Dec. years 4.00 mil. units.
Price: \$15.25 Div. \$2.04 Yld. 13.4% Price/CFS: 6.2X

Year	Op. EPS	Op. CFS	Div.	High	Low	Yield
1987	\$0.96	\$2.41	\$2.04	\$21.75	\$12.75	16.0- 9.4%
1988	0.89	2.35	2.00	19.50	16.00	12.5-10.3
1989E	0.95	2.40	2.04	16.75	14.38z	14.2-12.2z

Z-To date. MLP began operations Dec. 17, 1986 with initial offering at \$20/unit.

Financing: Debt: \$59.7 mil.; Equity: \$63.5 mil. plus \$13.2 mil. accum. depreciation, or \$19.17/un. combined.
Debt/combined equity ratio: 0.78-1.
Address: 700 Route 46 East, Fairfield, N.J. 07006. Phone: (201) 882-1010.

RED LION INNS L.P. (RED:ASE) RANK C

RED is a master limited partnership owning 10 mid-priced executive hotels with 3,076 rooms in the West. It accounts for about 25% of the 12,340 rooms in 53 hotels managed by sponsor Red Lion Inns Corp. of Vancouver, Wash. Red Lion was taken private by Kohlberg Kravis Roberts & Co. in 1985. We are maintaining our C Rank.

Gut Issue: Can RED continue to record good operating gains amid a soggy hotel market? Four of RED's 10 units met substantial competition in 1988, and still RED showed good operating results. Occupancy rose 5.2 occupancy points to 68.7% and average room rates moved up 4.1% to \$58.11/room. This translated into a 9.2% gain in average gross

revenue to \$28,095 per room, and a 7.3% increase in average gross operating profit to \$8,830 per room. This progress continued in the seasonally weak March qtr. when occupancy rose 3.9 points to 65.4% and average room rates advanced 2.8% to \$59.75. The June qtr. was said to be strong but results haven't been made public.

The 300-room Colorado Springs hotel was RED's biggest comebacker in 1988, turning cash flow positive after a poor 1987. Units in Bellevue, Wash. and Omaha fought new competition and in Sacramento, a new downtown Hyatt competed for the important business stemming from the state government.

Red Lion's new emphasis on marketing has boosted the RED's hotels. Red Lion competes for mid-priced markets with focus on business travelers plus conventions and meetings and tourists. Unlike many hotels, RED seeks to build local restaurant traffic to bolster food and beverage profits plus referrals.

Cash flow and distributions: RED's operating cash flow isn't yet covering payout. Cash flow came in at \$1.63/un. in 1988, including \$0.74/un. deferred incentive management fee and \$0.38/un. reserves for room and public area refurbishments. Ex these reserves, cash flow of \$2.01/un. would nearly cover payout of 2.0375/un. in 1988. The sponsor pays

any shortfalls from a non-interest loan and so far has funded \$2.6 mil. of the maximum \$4 mil. loan. Support equaled about 20% of payout in 1988. Those distributions were 100% tax-deferred in 1988 and are expected to be 90% deferred in 1989. Payout is at \$2.05/annually now.

Share buybacks: RED has bought 590,600 units at \$14.16/un. March qtr. purchases of 133,100 un. were at \$15.20/un. RED has approval to buy up to 1.0 mil. shs. but we doubt they will chase units at current prices. Management owns 0.3% and there are no large holders.

Asset value: We put RED current value at about \$17/un. in today's market but these quality hotels might sell for more.

Advice: We'd buy RED on dips below 17 for 12% yield. The recent price runup reflects RED's ability to stay ahead of competition in a tough hotel market. (KDC)

RED-ASE Rank: C Dec. years 4.35 mil. units
Price: \$18.25 Div: \$2.05 Yield: 11.3%

	Op.EPS	CFS	Dist.	High	Low	Yield
1987a	(\$0.09)	\$0.94	\$1.43	\$19.75	\$11.00	10-18%
1988	(0.29)	1.63	2.04	16.88	13.25	12-15
1989E	NE	1.70	2.05	18.75	14.38z	

a-From 4/7/87. Cash flow incl. deferred incentive mgmt. fees. z-To date.

Finances: Debt: \$111.5 mil.; Equity: \$60.6 mil.; accum. deprec. \$13.8 mil.; combined equity + dep.: \$17.21/un. Debt/equity ratio: 1.5-1.

Address: 4001 Main St., Vancouver, Wash. 98663. (206) 696-0001.

SHOPCO LAUREL CENTRE L.P. (LSC:ASE) RANK C

LSC is a single-asset master limited partnership that owns 10-year-old Laurel Centre, a 660,467 sq.ft. enclosed regional mall in Laurel, Md. 7.5 miles north of the Washington D.C. Beltway. Anchors occupy 416,000 SF or 63% of the Centre and include J.C. Penney (which leases 136,864 SF from LSC at \$3.62/SF), and Hecht's and Montgomery Ward department stores (which own their own space totaling 279,558 SF). LSC thus makes its money from the 244,045 SF mall, where total rents run over \$18.85/SF.

LSC bought the mall in Dec. 1986 for \$59.15 mil. or \$155.29/SF, financing the purchase with equity from \$43 mil. net proceeds from LSC's initial offering plus a \$22.5 mil. zero coupon loan on which LSC pays no interest until maturity in 1998 or sale of the property. We are posting an initial C Rank for LSC.

Gut Issue: LSC's strong sales growth isn't being recognized by the stock's potential investors. We see three main reasons, and if the cloud posed by any two were to lift, LSC units could get a higher multiple. This trio:

1. Sales gains under wraps: Continued strong sales by mall tenants are being obscured. Shearson Lehman, which sponsored LSC and acts as general partner, decided last Dec. to consolidate all MLP accounting at a Boston office, and that office apparently has changed accrual methods for percentage rents from tenants. Result: LSC's financials indicate a growing gap between sales and rental growth. For instance, sales rose 10.4% in 1988 while base and percentage rents were reported as being down 0.6%. And reported rents fell 10% in the March 1989 qtr. while sales rose 10.3%.

LSC says this gap is only temporary and will start smoothing out in the June and subsequent quarters. And even with this blip, LSC rents in 1988 were 3% ahead of projections made during its initial offer.

2. Skepticism on current value: LSC's independent appraisers reported the mall was worth \$80 mil. at the end of 1988, or \$11.40/un. But the market is yawning, partly because investors distrust appraisals at this stage of the realty cycle, and partly due to

LSC's zero-coupon financing (see below). Yet with 10% sales growth, the value gain doesn't seem out of line to us.

The appraised value gets strong support from our analysis of LSC's underlying sales volume. LSC's mall tenants had a strong 1988 with sales rising to \$231/SF. The 10.3% sales gain in the March qtr. sales suggests sales could top \$250/SF by next New Year's Day. These sales/SF numbers are 10%-20% above the national average. With shopping centers typically being valued at \$1/SF for each \$1 of sales per SF, our numbers suggest the mall is worth about \$61 mil. and the Penney space about \$19 mil. — or right on \$80 mil. And LSC's merchants got good 1988 sales volume even tho construction of a new food court (cost \$1 mil.) caused some disruption and vacancies.

3. Zero-mortgage fears: LSC's \$22.5 mil. zero note accretes at 10.2%, meaning LSC will owe \$57.9 mil. at maturity in Oct. 1996. We're always skittish over zeros because as the accreting interest compounds, it threatens to chew up LSC's equity in the mall. Thus unitholders could be spending now a portion of the mall's future value, under a worst-case.

But since LSC is already running ahead of projections, we think it's quite possible LSC unithold-

ers will receive something close to the initially projected \$10.73/un. when LSC liquidates in 1996.

Cash flow and distributions: LSC's cash flow was \$1.11/un. in 1988, including \$0.32 depreciation, \$0.54 noncash interest on the zero, and \$0.11 from a reserve set up at the initial offering. This reserve falls to about \$0.09 this year and ends after 1990. By then LSC's distributions, now at \$1.10 annually, should be fully covered by operating cash plus the noncash interest.

Advice: Buy for yield. We remain high on regional malls and LSC is one of the few opportunities for small investors to play. Although the price has slipped 5% since our Jan. review, we still see LSC as a solid long-term growth vehicle for individuals. Units are not suitable for tax-exempt institutions. (KDC)

LSC-ASE Rank: C Dec. years 4.66 mil. units
Price: \$9.50 Div.: \$1.10 Yield: 11.5%

	Op. EPS	CFS	Dist.	High	Low	Yield
1987a	\$0.16	\$1.02	\$0.72	\$10.13	\$5.75	11-20%
1988	0.14	1.11b	1.075	10.25	7.50	10-14
1989E	NE	1.10b	1.10	10.38	9.13z	11-12

a- From 4/9/87. b-Incl. cash reserves: \$0.11-1988; \$0.09-1989. z-To date.

Finances: Debt: \$27.3 mil.; Equity \$36.4 mil.; accum. deprec. \$2.8 mil.; Combined equity plus dep.: \$8.16/un. Debt/equity ratio: 0.7-1. A unit of Shearson Lehman Hutton Inc. serves as general partner. Address: 31 W. 52 St., New York, NY 10019. (212) 767-3400.

BURGER KING INVESTORS MASTER L.P. (BKP:NYSE) RANK C

BKP owns 128 restaurants leased to Burger King franchisees. Grand Metropolitan PLC, a British food and spirit conglomerate, in Jan. 1989, acquired Pillsbury Corp., parent of Burger King Corp., BKP's sponsor. BKP's offering in Feb. 1986, was not warmly received by investors because of concerns over property quality and sustainability of fast-food restaurant growth. Of the initial concerns, industry growth has become a serious issue. Rank of C is maintained.

Gut Issue: Can Grand Metropolitan's buyout of Pillsbury reverse sluggish sales for Burger King? Grand Met has installed a new chairman and president at Burger King. This shake-up may create the force to get things moving again. Burger King was viewed not long ago as a challenger to McDonalds for the lead in the burger battle but in recent years has become a perennial runner-up. Sales by BKP's underlying franchisees have flagged long-term despite new menu items and marketing campaigns from Burger King Corp.

But Grand Met hired a new ad firm to put some zing back in its advertising, a critical factor in Burger King's meteoric rise that has also been blamed for lackluster performance lately. BKP is now the purest play on Burger King fortunes as the only separately traded entity to benefit from an improvement in sales, which are felt directly with BKP's revenues directly tied to dollar sales increases at Burger King franchises. New ad campaigns take time to filter down to bottom-line, but as BKP's stock hits new highs, the market is

expressing confidence in new efforts.

Sales in the historically slowest March quarter at BKP's properties were off 5% from last year, resulting in a decrease of revenues of 3% to \$2.22 mil. Franchise unrest during Grand Met's sweep could not have helped. EPU was flat at \$0.27 as a result of a 10% decrease in G&A. In 1988, BKP's EPU was also down 4% to \$1.31/un. from \$1.37/un. in 1987 on restaurant sales that were 2% lower. March quarter Funds From Operations (which BKP defines as taxable income plus tax depreciation) came in at \$1.81/un., down 1% from the previous year. First quarter Funds From Oper. of \$0.39/share are unchanged from 1988. Annualized dividend of \$1.80/un. is currently maintainable and should find support thru 1989.

Advice: Buy shares for yield that is actually supported from operating funds. With stock at new highs we would not chase past \$16. Behind BKP's gains are: lower interest rates; potential of new add campaign; Payout support without mirrors. (MJH)

BKP-NYSE RANK C Dec. years 4.64 mil. units
Price: \$15.38 Div.: \$1.80 Yld. 11.7% Price/cash flow: 7.85

	Op.EPU	Op.CFU	Div.	High	Low	Yld.Range
1986	\$1.21a	\$1.53a	\$1.58a	\$24.38	\$17.75	8.9- 6.5%
1987	1.37	1.83	1.88	21.00	12.25	15.3- 9.0
1988	1.31	1.81	1.84	16.50	12.75	14.4-11.2
1989E	1.25	1.80	1.80	13.25	15.38	12.7-13.6

a-For 10 mon.; offered 2/86.

Debt none. Equity: \$81.2 mil. (\$17.52/un.)
Address: 200 S. Sixth St., St. Louis, MO 63101. (314) 330-8345.